

**VILLAGE OF CLAYTON, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2007**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                              |   |                   |
|--|------------------------------|---|-------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other |                              | Local Unit Name<br>Village of Clayton                     | County<br>Lenawee |
| Fiscal Year End<br>March 31, 2007  | Opinion Date<br>May 25, 2007 | Date Audit Report Submitted to State<br>September 4, 2007 |                   |

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                 | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |                              |
|--|-------------------------------------|--|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |                              |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |                              |
| Other (Describe)   | <input type="checkbox"/>            |  |                              |
| Certified Public Accountant (Firm Name)<br>Robertson, Eaton & Owen, P.C.   |                                     | Telephone Number<br>517 265-6154           |                              |
| Street Address<br>121 North Main Street  |                                     | City<br>Adrian                             | State<br>MI                  |
|  |                                     | Zip<br>49221                               |                              |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Meredith A. Matthews       | License Number<br>1101029000 |

**VILLAGE OF CLAYTON, MICHIGAN**  
**INDEPENDENT AUDITORS' REPORT**  
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**VILLAGE OF CLAYTON, MICHIGAN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

As management of the Village of Clayton, Michigan, we offer readers of the Village of Clayton, Michigan's financial statements this narrative overview and analysis of the financial activities of the Village of Clayton, Michigan for the fiscal year ended March 31, 2007. We encourage readers to consider the information presented here.

**Financial Highlights**

- The assets of the Village of Clayton, Michigan exceeded its liabilities at the close of the most recent fiscal year \$1,815,267 (*net assets*). Of this amount, \$132,222 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased \$45,120.
- As of the close of the current year, the Village of Clayton, Michigan's governmental funds reported combined ending fund balances of \$207,506, an increase of \$10,889 in comparison with the prior year.
- At the end of the current year, unreserved fund balance for the general fund was \$23,289, or 28 percent of total general fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Village of Clayton, Michigan's basic financial statements. The Village of Clayton, Michigan's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Village of Clayton, Michigan's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village of Clayton, Michigan's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Clayton, Michigan is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Village of Clayton, Michigan that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village of Clayton, Michigan include general government, public safety, highways and streets, sanitation, and culture and recreation. The business-type activities of the Village of Clayton, Michigan include the Sewer Fund.

The government-wide financial statements can be found on pages 2 – 4 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Clayton, Michigan, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village of Clayton, Michigan can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village of Clayton, Michigan maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and Local Street Fund, which are considered to be major funds.

The Village of Clayton, Michigan adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for all governmental funds to demonstrate compliance with budget.

The basic governmental fund financial statements can be found on pages 5 – 11 of this report.

**Proprietary funds.** The Village of Clayton, Michigan maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village of Clayton, Michigan uses an enterprise fund to account for its Sewer Fund. The *Internal Service Fund* is an accounting device used to accumulate and allocate costs internally among the Village of Clayton, Michigan's various functions. The Village of Clayton, Michigan uses an internal service fund to account for equipment expense (Equipment Fund). Because this service predominantly benefits governmental rather than a business-type function it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sewer Fund, which is considered to be a major fund of the Village of Clayton, Michigan. The internal service fund (Equipment Fund) is in the proprietary fund financial statements.

The basic fund financial statements can be found on pages 12 – 14 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 15 – 24 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Clayton, Michigan, assets exceeded liabilities by \$1,815,267 at the close of the most recent fiscal year.

By far the largest portion of the Village of Clayton, Michigan's net assets (83 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village of Clayton, Michigan uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village of Clayton, Michigan's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Village of Clayton, Michigan's Net Assets

|  | <b><u>Governmental<br/>Activities</u></b> | <b><u>Business-type<br/>Activities</u></b> | <b><u>Total</u></b> |
|--|---|--|---------------------|
| Current and other assets                           | \$ 215,721                                | \$ 101,170                                 | \$ 316,891          |
| Capital assets                                     | <u>310,215</u>                            | <u>1,188,613</u>                           | <u>1,498,828</u>    |
| Total assets                                       | <u>\$ 525,936</u>                         | <u>\$ 1,289,783</u>                        | <u>\$ 1,815,719</u> |
| Liabilities  | \$ 452                                    | \$   | \$ 452              |
| Total liabilities                                  | <u>\$ 452</u>                             | <u>\$</u>                                  | <u>\$ 452</u>       |
| <b>Net assets:</b>                                 |   |  |                     |
| Invested in capital assets, net<br>of related debt | \$ 310,215                                | \$ 1,188,613                               | \$ 1,498,828        |
| Restricted   | 184,217                                   |  | 184,217             |
| Unrestricted                                       | <u>31,052</u>                             | <u>101,170</u>                             | <u>132,222</u>      |
| Total net assets                                   | <u>\$ 525,484</u>                         | <u>\$ 1,289,783</u>                        | <u>\$ 1,815,267</u> |

An additional portion of the Village of Clayton, Michigan's net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$132,222) may be used to meet the government's ongoing obligations to citizens and creditors.

Village of Clayton, Michigan's Change in Net Assets

|                                    | <b><u>Governmental<br/>Activities</u></b> | <b><u>Business-type<br/>Activities</u></b> | <b><u>Total</u></b> |
|------------------------------------|---|--|---------------------|
| Program revenues:                  | \$ 14,528                                 | \$ 26,919                                  | \$ 41,447           |
| Charges for services               | <u>300</u>                                | <u>          </u>                          | <u>300</u>          |
| Operating grants and contributions |   |  |                     |
| Total program revenues             | <u>14,828</u>                             | <u>26,919</u>                              | <u>41,747</u>       |
| General revenues:                  |   |  |                     |
| Property taxes                     | 39,539                                    |  | 39,539              |
| Intergovernmental -- State         | 67,260                                    |  | 67,260              |
| Unrestricted investment earnings   | 4,517                                     | 1,603                                      | 6,120               |
| Miscellaneous                      | <u>2,390</u>                              | <u>          </u>                          | <u>2,390</u>        |
| Total general revenues             | <u>113,706</u>                            | <u>1,603</u>                               | <u>115,309</u>      |
| Total revenues                     | <u>128,534</u>                            | <u>28,522</u>                              | <u>157,056</u>      |
| Expenses:                          |   |  |                     |
| General government                 | 48,435                                    |  | 48,435              |
| Public safety                      | 30,538                                    |  | 30,538              |
| Sanitation                         | 10,273                                    |  | 10,273              |
| Culture and recreations            | 8,526                                     |  | 8,526               |
| Highways, streets, and bridges     | 44,731                                    |  | 44,731              |
| Sewer                              | <u>          </u>                         | <u>59,673</u>                              | <u>59,673</u>       |
| Total expenses                     | <u>142,503</u>                            | <u>59,673</u>                              | <u>202,176</u>      |
| Change in net assets               | (13,969)                                  | (31,151)                                   | (45,120)            |
| Beginning net assets               | <u>539,453</u>                            | <u>1,320,934</u>                           | <u>1,860,387</u>    |
| Ending net assets                  | <u>\$ 525,484</u>                         | <u>\$ 1,289,783</u>                        | <u>\$ 1,815,267</u> |

At the end of the current fiscal year, the Village of Clayton, Michigan is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

## **Financial Analysis of the Government's Funds**

As noted earlier, the Village of Clayton, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Village of Clayton, Michigan's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village of Clayton, Michigan's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of this fiscal year.

As of the end of the current fiscal year, the Village of Clayton, Michigan's governmental funds reported combined ending fund balances of \$207,506, an increase of \$10,889 in comparison with the prior year. Special Revenue Funds have \$184,217 available for their special uses.

The General Fund is the chief operating fund of the Village of Clayton, Michigan. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$23,289.

The fund balance of the Village of Clayton, Michigan's General Fund increased by \$5,022 during the current fiscal year. A key factor in this increase is expenditures were lower than projected.

**Proprietary fund** - The Village of Clayton, Michigan's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at the end of the year amounted to \$101,170. The total decrease in net assets for the fund was (\$31,151). This decrease is primarily attributable to depreciation expense of \$30,961.

## **General Fund Budgetary Highlights**

**Donations.** Budget is high by \$3,600 due to the Town Hall Building completion and donations that were not received from interested individuals and businesses as during construction.

## **Capital Asset and Debt Administration**

**Capital assets.** The Village of Clayton, Michigan's investment in capital assets for its governmental and business-type activities as of March 31, 2007, amounts to \$310,215 (net of accumulated depreciation). This investment in capital assets includes land, buildings and utility systems, machinery and equipment, park facilities, and roads. The total increase in the Village of Clayton, Michigan's investment in capital assets for the current fiscal year was 0%.

## **Village of Clayton, Michigan's Capital Assets**

Additional information on the Village of Clayton's capital assets can be found in Note 3. C. on pages 22 – 23.



**Economic Factors and Next Year's Budgets and Rates**

There are no anticipated changes for fiscal year 2007-08.

**Requests for Information**

This financial report is designed to provide a general overview of the Village of Clayton, Michigan's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village of Clayton, P.O. Box 74, Clayton, Michigan 49235.

May 25, 2007

## INDEPENDENT AUDITORS' REPORT

Village of Clayton  
Clayton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Clayton, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Clayton, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Clayton, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

The management's discussion and analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

***Robertson, Eaton & Owen, P.C.***

VILLAGE OF CLAYTON, MICHIGAN

STATEMENT OF NET ASSETS

March 31, 2007

|  | Primary Government         |                             |                     |
|--|----------------------------|-----------------------------|---------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Total               |
| <b>Assets:</b>                                     |                            |                             |                     |
| Cash and cash equivalents                          | \$ 118,035                 | \$ 27,425                   | \$ 145,460          |
| Investments  | 113,000                    | 45,000                      | 158,000             |
| Receivables (net)                                  | 7,415                      | 6,016                       | 13,431              |
| Internal balances                                  | (22,729)                   | 22,729                      |                     |
| <b>Capital assets:</b>                             |                            |                             |                     |
| Land   | 7,116                      | 28,625                      | 35,741              |
| Land improvements                                  | 31,996                     |                             | 31,996              |
| Buildings  | 218,511                    |                             | 218,511             |
| Equipment, machinery, furnishings,<br>and books    | 190,957                    |                             | 190,957             |
| Infrastructure                                     | 224,461                    |                             | 224,461             |
| Sewer system                                       |                            | 1,546,926                   | 1,546,926           |
| Less: Accumulated depreciation                     | <u>(362,826)</u>           | <u>(386,938)</u>            | <u>(749,764)</u>    |
| Total assets                                       | <u>\$ 525,936</u>          | <u>\$ 1,289,783</u>         | <u>\$ 1,815,719</u> |
| <b>Liabilities:</b>                                |                            |                             |                     |
| Accounts payable                                   | \$ <u>452</u>              | \$ <u>          </u>        | \$ <u>452</u>       |
| Total liabilities                                  | <u>\$ 452</u>              | <u>\$ <u>          </u></u> | <u>\$ 452</u>       |
| <b>Net Assets:</b>                                 |                            |                             |                     |
| Invested in capital assets, net of<br>related debt | \$ 310,215                 | \$ 1,188,613                | \$ 1,498,828        |
| <b>Restricted for:</b>                             |                            |                             |                     |
| Major streets                                      | 104,404                    |                             | 104,404             |
| Local streets                                      | 79,813                     |                             | 79,813              |
| Unrestricted                                       | <u>31,052</u>              | <u>101,170</u>              | <u>132,222</u>      |
| Total net assets                                   | <u>\$ 525,484</u>          | <u>\$ 1,289,783</u>         | <u>\$ 1,815,267</u> |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**

**STATEMENT OF ACTIVITIES**

**For the Year Ended March 31, 2007**

| <u><b>Functions/Programs</b></u> | <u><b>Expenses</b></u> | <u><b>Charges for<br/>Services</b></u> | <u><b>Operating<br/>Grants and<br/>Contributions</b></u> |
|----------------------------------|------------------------|--|--|
| <b>Primary Government:</b>       |                        |  |  |
| <b>Governmental activities:</b>  |                        |  |  |
| General government               | \$ 48,435              | \$ 1,298                               | \$ 300   |
| Public safety                    | 30,538                 |  |  |
| Sanitation                       | 10,273                 | 13,230                                 |  |
| Culture and recreation           | 8,526                  |  |  |
| Highways, streets, and bridges   | <u>44,731</u>          | <u>          </u>                      | <u>          </u>  |
| Total governmental activities    | <u>142,503</u>         | <u>14,528</u>                          | <u>300</u>   |
| <b>Business-Type activities:</b> |                        |  |  |
| Sewer system                     | <u>59,673</u>          | <u>26,919</u>                          | <u>          </u>  |
| Total business-type activities   | <u>59,673</u>          | <u>26,919</u>                          | <u>-</u>   |
| Total primary government         | <u>\$ 202,176</u>      | <u>\$ 41,447</u>                       | <u>\$ 300</u>  |

**General Revenues:**

Property taxes  
Intergovernmental – State  
Unrestricted investment earnings  
Miscellaneous

Total general revenues

Change in net assets

Net assets – beginning of year

Net assets – end of year

The notes to the financial statements are an integral part of this statement.

**Net (Expense) Revenue and Changes in Net Assets**  
**Primary Government**

| <b><u>Governmental<br/>Activities</u></b> | <b><u>Business-Type<br/>Activities</u></b> | <b><u>Total</u></b> |
|---|--|---------------------|
| \$ (46,837)                               | \$   | \$ (46,837)         |
| (30,538)                                  |  | (30,538)            |
| 2,957                                     |  | 2,957               |
| (8,526)                                   |  | (8,526)             |
| <u>(44,731)</u>                           | <u></u>                                    | <u>(44,731)</u>     |
| <u>(127,675)</u>                          | <u>-</u>                                   | <u>(127,675)</u>    |
| <u></u>                                   | <u>(32,754)</u>                            | <u>(32,754)</u>     |
| <u>-</u>                                  | <u>(32,754)</u>                            | <u>(32,754)</u>     |
| <u>\$ (127,675)</u>                       | <u>\$ (32,754)</u>                         | <u>\$ (160,429)</u> |
| <br>                                      |  |                     |
| \$ 39,539                                 | \$   | \$ 39,539           |
| 67,260                                    |  | 67,260              |
| 4,517                                     | 1,603                                      | 6,120               |
| <u>2,390</u>                              | <u></u>                                    | <u>2,390</u>        |
| <u>113,706</u>                            | <u>1,603</u>                               | <u>115,309</u>      |
| (13,969)                                  | (31,151)                                   | (45,120)            |
| <u>539,453</u>                            | <u>1,320,934</u>                           | <u>1,860,387</u>    |
| <u>\$ 525,484</u>                         | <u>\$ 1,289,783</u>                        | <u>\$ 1,815,267</u> |

# VILLAGE OF CLAYTON, MICHIGAN

## BALANCE SHEET

### GOVERNMENTAL FUNDS

March 31, 2007

|                                     | <u>General<br/>Fund</u> | <u>Major Street<br/>Fund</u> | <u>Local Street<br/>Fund</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------------|-------------------------|------------------------------|------------------------------|---|
| <b>Assets:</b>                      |                         |                              |                              |   |
| Cash and cash equivalents           | \$ 39,055               | \$ 26,404                    | \$ 44,813                    | \$ 110,272                              |
| Investments                         |                         | 78,000                       | 35,000                       | 113,000                                 |
| Accounts receivable                 | <u>7,415</u>            | <u>          </u>            | <u>          </u>            | <u>7,415</u>                            |
| Total assets                        | <u>\$ 46,470</u>        | <u>\$ 104,404</u>            | <u>\$ 79,813</u>             | <u>\$ 230,687</u>                       |
| <b>Liabilities:</b>                 |                         |                              |                              |   |
| Accounts payable                    | \$ 452                  | \$                           | \$                           | \$ 452                                  |
| Accrued liabilities                 |                         |                              |                              | 22,729                                  |
| Due to other funds                  | <u>22,729</u>           | <u>          </u>            | <u>          </u>            | <u>          </u>                       |
| Advance from other funds            |                         |                              |                              |   |
| Unearned revenue                    | <u>          </u>       | <u>          </u>            | <u>          </u>            | <u>23,181</u>                           |
| Total liabilities                   | <u>23,181</u>           | <u>-</u>                     | <u>-</u>                     | <u>23,181</u>                           |
| <b>Fund Balances:</b>               |                         |                              |                              |   |
| Unreserved, reported in:            |                         |                              |                              |   |
| General Fund                        | 23,289                  |                              |                              | 23,289                                  |
| Major Street Fund                   |                         | 104,404                      |                              | 104,404                                 |
| Local Street Fund                   | <u>          </u>       | <u>          </u>            | <u>79,813</u>                | <u>79,813</u>                           |
| Total fund balances                 | <u>23,289</u>           | <u>104,404</u>               | <u>79,813</u>                | <u>207,506</u>                          |
| Total liabilities and fund balances | <u>\$ 46,470</u>        | <u>\$ 104,404</u>            | <u>\$ 79,813</u>             | <u>\$ 230,687</u>                       |

Amounts reported for governmental activities  
in the Statement of Net Assets are different  
because:

Capital assets used in governmental activities  
are not financial resources and, therefore,  
are not reported in governmental funds.  
Internal Service Fund (Equipment Fund)  
is used by the Village to charge for equip-  
ment rental to the individual funds. The  
assets and liabilities of the Equipment  
Fund are included in governmental  
activities in the Statement of Net Assets.

\$ 277,010

40,968

317,978

Net differences

207,506

Total fund balance in governmental funds

\$ 525,484

Total net assets of governmental activities

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS**

**For the Year Ended March 31, 2007**

|  | <b><u>General<br/>Fund</u></b> | <b><u>Major Street<br/>Fund</u></b> | <b><u>Local Street<br/>Fund</u></b> | <b><u>Total<br/>Governmental<br/>Funds</u></b> |
|--|--------------------------------|-------------------------------------|-------------------------------------|--|
| <b>Revenues:</b>   |                                |                                     |                                     |  |
| Property taxes   | \$ 39,539                      | \$                                  | \$                                  | \$ 39,539                                      |
| Charges for services   | 13,230                         |                                     |                                     | 13,230   |
| State shared revenue   | 31,884                         | 25,699                              | 9,677                               | 67,260   |
| Interest   | 704                            | 2,582                               | 1,221                               | 4,507  |
| Miscellaneous revenues                                       | 2,391                          |                                     |                                     | 2,391  |
| Donations  | <u>300</u>                     | <u>          </u>                   | <u>          </u>                   | <u>300</u>                                     |
| Total revenues   | <u>88,048</u>                  | <u>28,281</u>                       | <u>10,898</u>                       | <u>127,227</u>                                 |
| <b>Expenditures:</b>   |                                |                                     |                                     |  |
| <b>Current:</b>  |                                |                                     |                                     |  |
| General government   | 44,864                         |                                     |                                     | 44,864   |
| Public safety  | 25,432                         |                                     |                                     | 25,432   |
| Sanitation   | 10,273                         |                                     |                                     | 10,273   |
| Culture and recreation                                       | 2,457                          |                                     |                                     | 2,457  |
| Highways, streets, and bridges                               | <u>          </u>              | <u>1,970</u>                        | <u>31,342</u>                       | <u>33,312</u>                                  |
| Total expenditures   | <u>83,026</u>                  | <u>1,970</u>                        | <u>31,342</u>                       | <u>116,338</u>                                 |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>5,022</u>                   | <u>26,311</u>                       | <u>(20,444)</u>                     | <u>10,889</u>                                  |
| <b>Other financing sources (uses):</b>                       |                                |                                     |                                     |  |
| Transfers in   |                                |                                     | 6,419                               | 6,419  |
| Transfers out  | <u>          </u>              | <u>(6,419)</u>                      | <u>          </u>                   | <u>(6,419)</u>                                 |
| Total other financing sources (uses)                         | <u>-</u>                       | <u>(6,419)</u>                      | <u>6,419</u>                        | <u>-</u>                                       |
| Net change in fund balances                                  | 5,022                          | 19,892                              | (14,025)                            | 10,889   |
| Fund balances - beginning of year                            | <u>18,267</u>                  | <u>84,512</u>                       | <u>93,838</u>                       | <u>196,617</u>                                 |
| Fund balances - end of year                                  | <u>\$ 23,289</u>               | <u>\$ 104,404</u>                   | <u>\$ 79,813</u>                    | <u>\$ 207,506</u>                              |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

**March 31, 2007**

Amounts reported for governmental activities in the  
Statement of Activities are different because:

Net change in fund balance – total governmental funds \$ 10,889

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those  
assets is allocated over their estimated useful lives and  
reported as depreciation expense. This is the amount by  
which capital outlays exceeded depreciation in the current  
period. (Total capital outlay \$-0- less total depreciation  
outlays \$20,469).

(20,469)

Internal Service Fund (Equipment Fund) is used by  
the Village to charge equipment rental to the  
individual funds. The net income (adjusted for  
depreciation) of the Equipment Fund is reported  
with governmental activities.

(4,389)

Change in net assets in governmental activities

\$ (13,969)



**VILLAGE OF CLAYTON, MICHIGAN**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL**

**For the Year Ended March 31, 2007**

|                                    | <b>Budgeted Amounts<br/>Original &amp;<br/>Final</b> | <b>Actual Amounts</b> | <b>Variance with<br/>Final Budget -<br/>Positive (Negative)</b> |
|------------------------------------|--|-----------------------|---|
| <b>Revenues:</b>                   |  |                       |   |
| Property taxes                     | \$ 38,000  | \$ 39,539             | \$ 1,539  |
| <b>Charges for services:</b>       |  |                       |   |
| Refuse collection                  | <u>13,350</u>  | <u>13,230</u>         | <u>(120)</u>  |
| Total charges for services         | <u>51,350</u>  | <u>52,769</u>         | <u>1,419</u>  |
| <b>State shared revenue:</b>       |  |                       |   |
| Sales tax                          | 33,000   | 31,738                | (1,262)   |
| Liquor tax                         | <u>148</u>   | <u>146</u>            | <u>(2)</u>  |
| Total state shared revenue         | <u>33,148</u>  | <u>31,884</u>         | <u>(1,264)</u>  |
| <b>Miscellaneous:</b>              |  |                       |   |
| Interest                           | 600  | 704                   | 104   |
| Donations                          | 3,900  | 300                   | (3,600)   |
| Other                              | <u>4,000</u>   | <u>2,391</u>          | <u>(1,609)</u>  |
| Total miscellaneous                | <u>8,500</u>   | <u>3,395</u>          | <u>(5,105)</u>  |
| Total revenues                     | <u>92,998</u>  | <u>88,048</u>         | <u>(4,950)</u>  |
| <b>Expenditures:</b>               |  |                       |   |
| <b>General Government</b>          |  |                       |   |
| Village Council                    | 2,880  | 2,840                 | 40  |
| President                          | 1,680  | 1,640                 | 40  |
| Clerk                              | 2,030  | 1,729                 | 301   |
| Treasurer                          | 2,480  | 2,330                 | 150   |
| Insurance                          | 19,000   | 20,509                | (1,509)   |
| Miscellaneous                      |  | 1,416                 | (1,416)   |
| Special meetings                   | 720  |                       | 720   |
| Election expense                   | 1,200  | 107                   | 1,093   |
| Professional fees                  | 250  | 983                   | (733)   |
| Payroll taxes                      | 1,000  | 1,051                 | (51)  |
| Audit                              | 2,500  |                       | 2,500   |
| Building and grounds               | <u>17,700</u>  | <u>12,259</u>         | <u>5,441</u>  |
| Total General Government           | <u>51,440</u>  | <u>44,864</u>         | <u>6,576</u>  |
| Total expenditures carried forward | <u>\$ 51,440</u>                                     | <u>\$ 44,864</u>      | <u>\$ 6,576</u>   |

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CLAYTON, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL

For the Year Ended March 31, 2007

|                                    | Budgeted Amounts<br>Original &<br>Final | Actual Amounts   | Variance with<br>Final Budget -<br>Positive (Negative) |
|------------------------------------|---|------------------|--|
| Total expenditures carried forward | \$ 51,440                               | \$ 44,864        | \$ 6,576   |
| <b>Public Health and Safety:</b>   |   |                  |  |
| Law enforcement                    | 148                                     |                  | 148  |
| Building Inspector                 | 900                                     | 1,030            | (130)  |
| Street/Drain Commissioner          | 650                                     | 650              |  |
| Fire                               | 18,780                                  | 18,780           |  |
| Street lighting                    | <u>5,000</u>                            | <u>4,972</u>     | <u>28</u>  |
| Total Public Health and Safety     | <u>25,478</u>                           | <u>25,432</u>    | <u>46</u>  |
| Sanitation                         | <u>10,200</u>                           | <u>10,273</u>    | <u>(73)</u>  |
| Culture and recreation             | <u>16,800</u>                           | <u>2,457</u>     | <u>14,343</u>  |
| Total expenditures                 | <u>103,918</u>                          | <u>83,026</u>    | <u>20,892</u>  |
| Net change in fund balance         | (10,920)                                | 5,022            | 15,942   |
| Fund balance – beginning of year   |   | <u>18,267</u>    |  |
| Fund balance – end of year         |   | <u>\$ 23,289</u> |  |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**

**MAJOR STREET FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL**

**For the Year Ended March 31, 2007**

|  | <b>Budgeted Amounts<br/>Original &amp;<br/><u>Final</u></b> | <b><u>Actual Amounts</u></b> | <b>Variance with<br/>Final Budget -<br/><u>Positive (Negative)</u></b> |
|--|---|------------------------------|--|
| <b>Revenues:</b>   |   |                              |  |
| <b>Intergovernmental:</b>                                    |   |                              |  |
| State Highway Department                                     | \$ 26,500   | \$ 25,699                    | \$ (801)   |
| <b>Miscellaneous:</b>  |   |                              |  |
| Interest   | 500   | 2,582                        | 2,082  |
| Miscellaneous  | <u>200</u>  | <u>          </u>            | <u>(200)</u>   |
| Total revenues   | <u>27,200</u>   | <u>28,281</u>                | <u>1,081</u>   |
| <b>Expenditures:</b>   |   |                              |  |
| Routine maintenance  | 45,000  | 1,548                        | 43,452   |
| Winter maintenance   | 2,000   | 261                          | 1,739  |
| Drains   | 1,750   | 36                           | 1,714  |
| Signs  | 2,500   | 125                          | 2,375  |
| Mowing, tree work and brush pickup                           | <u>6,300</u>  | <u>          </u>            | <u>6,300</u>   |
| Total expenditures   | <u>57,550</u>   | <u>1,970</u>                 | <u>55,580</u>  |
| Excess (deficiency) of revenues over<br>(under) expenditures | (30,350)  | 26,311                       | 56,661   |
| <b>Other financing uses:</b>                                 |   |                              |  |
| Transfers out  | <u>(6,625)</u>  | <u>(6,419)</u>               | <u>206</u>   |
| Net change in fund balance                                   | (36,975)  | 19,892                       | 56,867   |
| Fund balance – beginning of year                             |   | <u>84,512</u>                |  |
| Fund balance – end of year                                   |   | <u><u>\$ 104,404</u></u>     |  |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**

**LOCAL STREET FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL**

**For the Year Ended March 31, 2007**

|  | <b>Budgeted Amounts<br/>Original &amp;<br/><u>Final</u></b> | <b><u>Actual Amounts</u></b> | <b>Variance with<br/>Final Budget -<br/><u>Positive (Negative)</u></b> |
|--|---|------------------------------|--|
| <b>Revenues:</b>   |   |                              |  |
| <b>Intergovernmental:</b>                                    |   |                              |  |
| State Highway Department                                     | \$ 11,000   | \$ 9,677                     | \$ (1,323)   |
| <b>Miscellaneous:</b>  |   |                              |  |
| Interest   | 1,000   | 1,221                        | 221  |
| Miscellaneous  | <u>200</u>  | <u>          </u>            | <u>(200)</u>   |
| Total revenues   | <u>12,200</u>   | <u>10,898</u>                | <u>(1,302)</u>   |
| <b>Expenditures:</b>   |   |                              |  |
| Routine maintenance  | 42,000  | 30,993                       | 11,007   |
| Winter maintenance   | 2,000   | 225                          | 1,775  |
| Drains   | 1,850   |                              | 1,850  |
| Signs  | 2,500   | 124                          | 2,376  |
| Mowing, tree work and brush pickup                           | <u>5,800</u>  | <u>          </u>            | <u>5,800</u>   |
| Total expenditures   | <u>54,150</u>   | <u>31,342</u>                | <u>22,808</u>  |
| Excess (deficiency) of revenues over<br>(under) expenditures | (41,950)  | (20,444)                     | 21,506   |
| <b>Other financing sources:</b>                              |   |                              |  |
| Transfers in   | <u>6,625</u>  | <u>6,419</u>                 | <u>(206)</u>   |
| Net change in fund balance                                   | (35,325)  | (14,025)                     | 21,300   |
| Fund balance – beginning of year                             |   | <u>93,838</u>                |  |
| Fund balance – end of year                                   |   | <u>\$ 79,813</u>             |  |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

**March 31, 2007**

|                                | <u><b>Business Type Activity -<br/>Enterprise Fund</b></u> | <u><b>Governmental Activity -<br/>Internal Service Fund</b></u> |
|--------------------------------|--|---|
|                                | <u><b>Sewer Fund</b></u>                                   | <u><b>Equipment Fund</b></u>                                    |
| <b>Assets:</b>                 |  |   |
| <b>Current assets:</b>         |  |   |
| Cash and cash equivalents      | \$ 27,425  | \$ 7,763  |
| Investments                    | 45,000   |   |
| <b>Receivables:</b>            |  |   |
| Sewer usage                    | 6,016  |   |
| Due from other funds           | 2,729  |   |
| Advance to other funds         | <u>20,000</u>  |   |
| Total current assets           | <u>101,170</u>   | <u>7,763</u>  |
| <b>Capital assets:</b>         |  |   |
| Land                           | 28,625   |   |
| Sewer system                   | 1,546,926  |   |
| Equipment                      |  | 45,498  |
|                                |  | 74,957  |
| Less: Accumulated depreciation | <u>(386,938)</u>   | <u>(87,250)</u>   |
| Total capital assets – net     | <u>1,188,613</u>   | <u>33,205</u>   |
| Total assets                   | <u><u>\$ 1,289,783</u></u>                                 | <u><u>\$ 40,968</u></u>   |
| <b>Net Assets:</b>             |  |   |
| Invested in capital assets     | 1,188,613  | 33,206  |
| Unrestricted                   | <u>101,170</u>   | <u>7,762</u>  |
| Total net assets               | <u><u>\$ 1,289,783</u></u>                                 | <u><u>\$ 40,968</u></u>   |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2007**

|                                      | <u><b>Business Type Activity -<br/>Enterprise Fund</b></u> | <u><b>Governmental Activity -<br/>Internal Service Fund</b></u> |
|--------------------------------------|--|---|
|                                      | <u><b>Sewer Fund</b></u>                                   | <u><b>Equipment Fund</b></u>                                    |
| <b>Operating revenues:</b>           |  |   |
| Billings to departments              | \$   | \$ 1,298  |
| User fees                            | <u>26,919</u>  | <u>          </u>   |
| Total operating revenues             | <u>26,919</u>  | <u>1,298</u>  |
| <b>Operating expenses:</b>           |  |   |
| Billing fees                         | 924  |   |
| Repairs, maintenance, and materials  | 27,333   | 346   |
| Gas and oil                          |  | 245   |
| Depreciation                         | 30,961   | 5,106   |
| Administration                       | <u>455</u>   | <u>          </u>   |
| Total operating expenses             | <u>59,673</u>  | <u>5,697</u>  |
| Operating loss                       | (32,754)   | (4,399)   |
| <b>Nonoperating revenues:</b>        |  |   |
| Interest                             | <u>1,603</u>   | <u>10</u>   |
| Change in net assets                 | (31,151)   | (4,389)   |
| Total net assets – beginning of year | <u>1,320,934</u>   | <u>45,357</u>   |
| Total net assets – end of year       | <u><u>\$ 1,289,783</u></u>                                 | <u><u>\$ 40,968</u></u>   |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

**For the Year Ended March 31, 2007**

**INCREASE IN CASH AND CASH EQUIVALENTS**

|  | <u><b>Business Type Activity -<br/>Enterprise Fund</b></u> | <u><b>Governmental Activity -<br/>Internal Service Fund</b></u> |
|--|--|---|
|  | <u><b>Sewer Fund</b></u>                                   | <u><b>Equipment Fund</b></u>                                    |
| <b>Cash flows from operating activities:</b>           |  |   |
| Cash received from customers                           | \$ 25,997  | \$ 1,298  |
| Cash paid to suppliers and employees                   | <u>(31,441)</u>  | <u>(835)</u>  |
| Net cash provided by (used in)<br>operating activities | <u>(5,444)</u>   | <u>463</u>  |
| <b>Cash flows from financing activities:</b>           |  |   |
| Interest and other income received                     | 1,603  | 10  |
| Repayment of advance                                   | <u>10,000</u>  | <u></u>   |
| Net cash provided by financing<br>activities           | <u>11,603</u>  | <u>10</u>   |
| Net increase in cash and<br>cash equivalents           | 6,159  | 473   |
| Cash and cash equivalents – beginning of year          | <u>21,266</u>  | <u>7,290</u>  |
| Cash and cash equivalents – end of year                | <u><u>\$ 27,425</u></u>                                    | <u><u>\$ 7,763</u></u>  |

**RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH  
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

|  |                          |                      |
|--|--------------------------|----------------------|
| Loss from operations   | \$ (32,754)              | \$ (4,399)           |
| <b>Adjustments to reconcile loss<br/>from operations to net<br/>cash provided by (used in)<br/>operating activities:</b> |                          |                      |
| Depreciation expense   | 30,961                   | 5,107                |
| <b>Changes in assets and liabilities:</b>  |                          |                      |
| Decrease (increase) in accounts<br>receivable  | (922)                    |                      |
| Due from other funds   | (2,729)                  |                      |
| Increase (decrease) in accounts<br>payable   | <u></u>                  | <u>(245)</u>         |
| Net cash provided by (used in)<br>operating activities   | <u><u>\$ (5,444)</u></u> | <u><u>\$ 463</u></u> |

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Village of Clayton, Michigan (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units

Effective April 1, 2004, the Village of Clayton, Michigan implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the statement include the following:

- ◆ A Management's Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations has been included with the financial statements.
- ◆ Financial statements prepared using full accrual accounting for all of the Village's activities.
- ◆ A change in the fund financial statements to focus on the major fund.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Village of Clayton, Michigan has elected to implement the general provisions of the statement.

**A. Reporting Entity**

The Village of Clayton is a General Law Village as provided under the General Village Act of 1895, governed by the Village Council. As required by generally accepted accounting principles, these financial statements present the Village of Clayton, Michigan as a primary government. There are no component units to the Village.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.



**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for governmental funds and proprietary funds. Major governmental funds and a major enterprise fund are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Amounts due from other governments and services provided associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**The government reports the following major governmental funds:**

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of Village streets designated as major streets under the State of Michigan Act 51 of Public Acts of 1951.

The *Local Street Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of Village streets designated as local streets under the State of Michigan Act 51 of Public Acts of 1951.

**The government reports the following major proprietary fund:**

The *Sewer Fund* accounts for the construction and operations of the sewer system.

**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Additionally, the government reports the following fund type:**

The *Equipment Fund* (Intergovernmental Service Fund) is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of the following subsequent private-sector guidance for their business-type activities (Sewer Fund), subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments of utility charges between the Village's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Amounts reported as *program revenues* included 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The Proprietary Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund relate to charges to customers for sales and services. Operating expenses for this fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Assets, liabilities, and net assets or equity.**

**1. Cash and investments**

Cash includes amounts in cash on hand, demand deposits, except those deposits noted as investments (see below), as well as short-term investments with a maturity date within three months of the date acquired by the government.

Investments include certificates of deposit where the intent is to hold funds long-term, as well as investments with maturity dates over three months of the date acquired by the government.

State statutes authorize the government to invest in Obligations of the U.S. Treasury, Federal Agencies, commercial paper, corporate bonds, repurchase agreements, and State approved Investment Pools.

Investments are stated at cost or amortized cost. The Village will use amortized cost only when it reflects fair value of the investment. Currently, no investments are stated at amortized cost.

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The Village had one advance between funds at March 31, 2007.

Personal property taxes receivable is shown net of an allowance for uncollectibles.

**3. Property Taxes**

Property taxes are levied as of July 1 on property values assessed as of the prior December 1. The billing is mailed on July 1 and is considered due upon receipt by the taxpayer; however, the actual due date is September 14. A lien on property occurs when property taxes are levied (July 1). On September 14, the bill becomes delinquent and penalties and interest may be assessed by the government.

**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Village had a general tax millage of 9.3946 for 2006. The Village's maximum allowable millage is 12 mills. For 2006, taxable value of properties was \$4,208,666.

Delinquent real property taxes are turned over to the County and reimbursed through a revolving fund. Therefore, property taxes receivable are not accounted for under the 60 day rule.

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u>                            | <u>Years</u> |
|--|--------------|
| Land improvements                        | 20           |
| Buildings                                | 20 – 75      |
| Machinery, equipment,<br>and furnishings | 5 – 20       |
| Utility systems                          | 20 – 50      |
| Infrastructure                           | 20           |

**5. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**VILLAGE OF CLAYTON, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**March 31, 2007**

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary information**

The accounting basis used by the Village for budgeting is in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Village follows the budgetary procedures outlined by the State of Michigan including public hearings and proper adoption. All funds of the Village have a budget. All annual appropriations lapse at fiscal year end. The budgets are amended during the year as needed.

**B. Excess of expenditures over appropriations in budgetary funds**

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2007, the Village incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

| <u>Fund</u>                      | <u>Appropriations</u> | <u>Amount of<br/>Expenditures</u> | <u>Budget<br/>Variance</u> |
|----------------------------------|-----------------------|-----------------------------------|----------------------------|
| <b>General Fund</b>              |                       |                                   |                            |
| <b>General Government:</b>       |                       |                                   |                            |
| Insurance                        | \$ 19,000             | \$ 20,509                         | \$ 1,509                   |
| Professional fees                | 250                   | 983                               | 733                        |
| Miscellaneous                    | -                     | 1,416                             | 1,416                      |
| Payroll taxes                    | 1,000                 | 1,051                             | 51                         |
| <b>Public Health and Safety:</b> |                       |                                   |                            |
| Building inspections             | 900                   | 1,030                             | 130                        |
| Sanitation                       | 10,200                | 10,273                            | 73                         |

These additional expenditures were funded by less spending in other areas in the case of the General Fund.

**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 3. DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of March 31, 2007, \$68,646 of the Township's bank balance of \$303,646 was exposed to custodial credit risk as follows:

|                                |                  |
|--------------------------------|------------------|
| Uninsured and uncollateralized | \$ <u>68,646</u> |
|--------------------------------|------------------|

**Investments**

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Township does not have an investment policy for interest rate risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Township does not have a concentration of credit risk policy.

The Township's investments include certificates of deposit with United Bank & Trust and Key Bank. 78% of the total certificates of deposit are held by United Bank & Trust and 22% are held by Key Bank. The weighted average maturity of the governmental funds certificates of deposits is 173.99 days. The weighted average maturity of the proprietary funds certificates of deposits is 167 days.

**NOTE 4. RECEIVABLES**

Receivables as of year end for the government's general and sewer funds, including the applicable allowances for uncollectible accounts, are as follows:

|                                    | <u>General<br/>Fund</u> | <u>Sewer<br/>Fund</u> | <u>Total</u>     |
|------------------------------------|-------------------------|-----------------------|------------------|
| <b>Receivables:</b>                |                         |                       |                  |
| Taxes                              | \$ 3,604                | \$                    | \$ 3,604         |
| Accounts                           | <u>3,810</u>            | <u>6,016</u>          | <u>9,826</u>     |
| Gross receivables                  | 7,414                   | 6,016                 | 13,430           |
| Less: Allowance for uncollectibles | <u>-</u>                | <u>-</u>              | <u>-</u>         |
| Net total receivables              | <u>\$ 7,414</u>         | <u>\$ 6,016</u>       | <u>\$ 13,430</u> |

**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2007 is as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u>   | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|--------------------|---------------------------|
| <b>Governmental activities:</b>                 |                              |                    |                    |                           |
| Capital assets, not being depreciated:          |                              |                    |                    |                           |
| Land  | \$ 7,116                     | \$ _____           | \$ _____           | \$ 7,116                  |
| Capital assets, being depreciated:              |                              |                    |                    |                           |
| Land improvements                               | 31,996                       |                    |                    | 31,996                    |
| Buildings                                       | 218,511                      |                    |                    | 218,511                   |
| Equipment, machinery, furnishings,<br>and books | 190,957                      |                    |                    | 190,957                   |
| Infrastructure – roads                          | <u>224,461</u>               | <u>          </u>  | <u>          </u>  | <u>224,461</u>            |
| Total capital assets, being depreciated         | <u>665,925</u>               | <u>          -</u> | <u>          -</u> | <u>665,925</u>            |
| Less: Accumulated depreciation for:             |                              |                    |                    |                           |
| Land improvements                               | (12,177)                     | (872)              |                    | (13,049)                  |
| Buildings                                       | (72,346)                     | (4,273)            |                    | (76,619)                  |
| Equipment, machinery, furnishings,<br>and books | (118,051)                    | (9,207)            |                    | (127,258)                 |
| Infrastructure                                  | <u>(134,677)</u>             | <u>(11,223)</u>    | <u>          </u>  | <u>(145,900)</u>          |
| Total accumulated depreciation                  | <u>(337,251)</u>             | <u>(25,575)</u>    | <u>          -</u> | <u>(362,826)</u>          |
| Total capital assets, being depreciated , net   | <u>328,674</u>               | <u>(25,575)</u>    | <u>          -</u> | <u>303,099</u>            |
| Governmental activities, capital assets - net   | <u>\$ 335,790</u>            | <u>\$ (25,575)</u> | <u>\$       -</u>  | <u>\$ 310,215</u>         |

**VILLAGE OF CLAYTON, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2007**

**NOTE 5. CAPITAL ASSETS (Continued)**

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| <b>Business-type activities:</b>             |                              |                    |                  |                           |
| Capital assets, not being depreciated:       |                              |                    |                  |                           |
| Land   | \$ 28,625                    | \$ -               | \$ -             | \$ 28,625                 |
| Capital assets, being depreciated:           |                              |                    |                  |                           |
| Sewer system                                 | 1,546,926                    | -                  | -                | 1,546,926                 |
| Less: Accumulated depreciation for:          |                              |                    |                  |                           |
| Sewer system                                 | (355,977)                    | (30,961)           | -                | (386,938)                 |
| Total capital assets, being depreciated-net  | 1,190,949                    | (30,961)           | -                | 1,159,988                 |
| Business-type activities, capital assets-net | <u>\$ 1,219,574</u>          | <u>\$ (30,961)</u> | <u>\$ -</u>      | <u>\$ 1,188,613</u>       |

Depreciation expense was charged to functions/programs of the primary government as follows:

|  |                  |
|--|------------------|
| <b>Governmental activities:</b>                          |                  |
| General government                                       | \$ 3,374         |
| Public health and safety                                 | 5,106            |
| Culture and recreation                                   | 5,872            |
| Highways and streets                                     | <u>11,223</u>    |
| Total depreciation expense –<br>governmental activities  | <u>\$ 25,575</u> |
| <b>Business-type activities:</b>                         |                  |
| Sewer system   | <u>30,961</u>    |
| Total depreciation expense –<br>business-type activities | <u>\$ 30,961</u> |



**VILLAGE OF CLAYTON, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**March 31, 2007**

**NOTE 6. INTERFUND BALANCES AND TRANSFERS**

**Interfund balances**

Interfund balances at March 31, 2007 are as follows:

| <u>Due to</u> |                  | <u>Due from</u> |                  |
|---------------|------------------|-----------------|------------------|
| Sewer         | \$ <u>22,729</u> | General         | \$ <u>22,729</u> |

\$20,000 of the above balance results from a loan between the sewer fund and the general fund. Payments of \$10,000 in the next two fiscal years are expected to be made to pay off this loan. The remaining balance resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made and is expected to be repaid within the next fiscal year.

**Interfund transfers**

Interfund transfers at March 31, 2007 are as follows:

| <u>Transfers Out</u> |                 | <u>Transfers In</u> |                 |
|----------------------|-----------------|---------------------|-----------------|
| Major Street         | \$ <u>6,419</u> | Local Street        | \$ <u>6,419</u> |

Interfund transfers are used to use unrestricted revenues collected in the major street fund to finance various programs accounted for in the local street fund in accordance with budgetary authorizations.

**NOTE 7. RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township is a member of the Michigan Township Participating Plan ("Plan") to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses and to defend and protect against liability or loss. The Plan provides protection to the Township based on its selected risks, limits and deductibles. Any settled claims have not exceeded the limits of coverage in any of the past three years.

May 25, 2007

Village of Clayton  
Clayton, Michigan

We have audited the basic financial statements of the Village of Clayton as of and for the year ended March 31, 2007, and have issued our report thereon dated May 25, 2007.

In planning and performing our audit of the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Clayton as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Clayton's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Clayton's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Clayton's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

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May 25, 2007

Village of Clayton  
Clayton, Michigan

Segregation of duties is a desired control that all townships should have to maximize the effectiveness of their internal control over receiving, disbursing, recording and reporting financial transactions. However, we also know that this requires additional funds to support, and given the size of the Village, it is not feasible nor reasonable that you hire additional staff to get the desired controls. We recommend that the board review the current policies and determine if there is a way to achieve the desired controls without adding additional costs. We would be available to help with this if desired.

This communication is intended solely for the information and use of management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

***Robertson, Eaton & Owen, P.C.***